Declining Inequality in Latin America: A Decade of Progress?

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Summary

Latin America is always singled out because of its high and persistent income inequality. However, after a period of rising inequality, towards the end of the 1990s Latin America’s concentration of income began to fall. Of the seventeen countries for which comparable data is available, twelve experienced a decline since 2000 in particular. Through in-depth analyses of Argentina, Brazil, Mexico and Peru, this book is among the first attempts to understand why inequality has fallen in Latin America since 2000. The country studies focus primarily on the proximate causes of changes in inequality, such as changes in the distribution of educational attainment, returns to personal characteristics (education, gender and experience), access to employment, hours worked, and government transfers. Authors rely on a variety of parametric and non-parametric methods to decompose the changes in household income inequality. The empirical analysis is combined with indirect evidence and historical narratives.

The main findings can be summarized as follows. Two main factors account for the decline in inequality: a fall in the earnings gap between skilled and low-skilled workers, and an increase in government transfers targeted to the poor. The fall in the earnings gap is mainly the result of the expansion of coverage in basic education during the last couple of decades. It is also the result of the petering out of the one-time unequalizing effect of skill-biased technical change in the 1990s. The upgrading of skills of the poor, however, will soon face the “access-to-tertiary education” barrier—mainly due to the low quality education that the poor receive in basic and secondary levels-- and thus the decline in inequality is not likely to continue when that barrier gets hit. Despite the progress in making public policy more pro-poor, a large share of government spending continues to be either neutral or regressive, and the collection of taxes on personal income and wealth is very low. Making public spending and taxes more progressive and improving the quality of public services for the poor—especially in education-- are key to continue on the path towards more equitable societies.
To provide a conceptual context for the experiences of the four countries studied, the book includes two theoretical chapters: an overview of the theoretical relationship between markets and distributive outcomes and an overview on the political economy of redistribution. These chapters suggest three things. First, from economic theory we can infer that because of the co-existence of imperfect capital markets and investment indivisibilities, market forces in Latin American middle-income countries are likely to reproduce inequality. Furthermore, these countries are likely to benefit from redistribution not only in terms of equity but also in terms of growth. Second, from the political economy analysis of redistribution we learn that the recent redistributive momentum may be a consequence of the strengthening of democracy. But to consolidate the redistributive momentum will require a transition from clientelistic to programmatic politics. To do this it will be essential to help the disenfranchised to mobilize and act collectively through political parties, and to promote the strengthening of legislatures and the restriction of presidential powers. Finally, the book also includes a chapter on the evolution of inequality in advanced countries. From the experience of advanced countries we learn that sustaining equity over time requires a permanent redistributive effort through progressive income and wealth taxation of the very top incomes in particular. We also learn that progressive fiscal policy is consistent with prosperity.

Additional Resources:

This summary is also featured on the Dialogue’s Social Policy Program webpage.

The book can be purchased through Brookings Institution Press.

Select chapters can be accessed via the UNDP website:

- Markets and the Dynamics of Inequality: Theoretical Perspectives
- The Political Economy of Redistributive Policies
- The Dynamics of Income Concentration over the Twentieth Century: The Case of Advanced Countries
- A Distribution in Motion: The Case of Argentina
- Markets, the State and the Dynamics of Inequality: Brazil’s Case Study
- A Decade of Falling Inequality in Mexico: Market Forces or State Action?
- Inequality in Post-Structural Reform Peru: The Role of Market Forces and Public Policy